ADMINISTRATION'S REQUEST FOR AN INCREASE IN THE PUBLIC DEBT LIMIT

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

TESTIMONY OF THOMAS J. HEALEY, ASSISTANT SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY

AUGUST 8, 1984

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ADMINISTRATION'S REQUEST FOR AN INCREASE IN THE PUBLIC DEBT LIMIT

WEDNESDAY, AUGUST 8, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met at 2:48 p.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Tuesday, Aug. 7, 1984]

HON. DAN ROSTENKOWSKI, (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING ON THE ADMINISTRATION'S REQUEST FOR AN INCREASE IN THE PUBLIC DEBT LIMIT

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways & Means, U.S. House of Representatives, today announced that the Committee will hold a one-day public hearing on the Administration's request for an increase in the public debt limit. The hearing will be held on Wednesday, August 8, 1984, at 2:30 p.m., in the Committee's main hearing room, 1100 Longworth House Office Building.

The current limit on the public debt is $1,573 billion which the Administration expects to be adequate to meet the Federal government's financing needs until the first week in September. In a recent letter to Chairman Rostenkowski, the Secretary of the Treasury, the Honorable Donald T. Regan, indicated that in the absence of a further increase in the public debt limit by early September, the Administration "would have to delay temporarily investment of a portion of the required transfer from the general fund to the Social Security Trust Funds and would have to take other measures which would be contrary to good debt management policy." Thus, the purpose of this hearing is to evaluate the Administration's request for "prompt action" on an increase in the public debt limit.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Committee must submit their requests to be heard by telephone to Harriett Lawler [(202) 225-3627] no later than noon, Wednesday, August 8, 1984. Notification to those scheduled to appear will be made by telephone as soon as possible after the filing deadline.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Committee are required to submit 100 copies of their prepared statements to the Committee office, room 1102 Longworth House Office Building, before the hearing begins. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

Requests to be heard and statements filed for the printed record of the hearing must contain the following information:

(1) The name, full address, and capacity in which the witness will appear, as well as a telephone number where the witness or a designated representative may be reached;

(2) A list of any clients or persons, or any organization for whom the witness appears; and

(3) A topical outline or summary of comments and recommendations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting written statements for the printed record of the hearing should submit at lease six (6) copies by noon, August 8, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office before the hearing begins.

Chairman ROSTENKOWSKI. The committee will come to order.

This afternoon's hearing has been scheduled at the request of the administration. On July 31, I received a letter from the Honorable Don Regan, Secretary of the Treasury, requesting congressional action to once again increase the public debt limit.

Let me quote from that letter:

The present debt limit of $1,573 billion should be adequate to meet our needs in August. However, our current projections of cash and debt indicate that without an increase in the debt limit, beginning the first week of September, Treasury would have to delay temporarily investment of the portion of its required transfer from the general fund to the Social Security Trust Fund, and would have to take other measures which would be contrary to good debt management policy. In short, based on our present estimates, Treasury is requesting that Congress take prompt action to increase the current debt ceiling.

To further elaborate on Secretary Regan's letter, the committee will receive testimony from Thomas J. Healey, Assistant Secretary for Domestic Finance.

Mr. Healey, the committee is ready to receive your testimony. I hope that you are ready to proceed.

STATEMENT OF HON. THOMAS J. HEALEY, ASSISTANT SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY

Mr. HEALEY. Mr. Chairman and members of the committee:

My purpose here today is to discuss with your committee the public debt ceiling.

As you read from the letter from the Secretary, the present debt limit of $1,573 billion should be adequate to meet our needs in August.

Our current projections of cash and debt do indicate that without an increase in the debt limit beginning the first week in September, Treasury will have to delay the required transfer from the general fund to the Social Security trust funds and take other measures.

The estimates in the April 1984 budget update show the debt subject to limit at $1,584 billion on September 30, 1984, and $1,824 billion on September 30, 1985, assuming a $20 billion Treasury cash balance on those dates. Our conventional assumption of an additional $5 billion allowance for contingencies brings our debt limit requests to $1,589 billion through September 30, 1984, and $1,829 billion through September 30, 1985. There may be minor adjustments to those numbers when the midsession review is released in several days.

However, with the present debt ceiling, there is no problem in August, as I mentioned earlier, and taking the measures described previously will enable us to get well into September before an increase becomes absolutely essential.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

[The prepared statement follows:]

STATEMENT OF HON. THOMAS J. HEALEY, ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)

Mr. Chairman and members of the committee, my purpose here today is to request that your Committee take prompt action to increase the public debt ceiling.

The present debt limit of $1,573 billion should be adequate to meet our needs in August. However, our current projections of cash and debt indicate that, without an increase in the debt limit, beginning the first week of September Treasury would have to delay temporarily investment of a portion of the required transfer from the general fund to the Social Security Trust Funds and who would have to take other measures which would be contrary to good debt management policy.

The estimates in the April 1984 Budget update show the debt subject to limit at $1,584 billion on September 30, 1984, and $1,824 billion on September 30, 1985, assuming a $20 billion Treasury cash balance on those dates. Our conventional assumption of an additional $5 billion allowance for contingencies brings our debt limit requests to $1,589 billion through September 30, 1984, and $1,829 billion through September 30, 1985.

That concludes my prepared statement, Mr. Chairman. I will be happy to respond to your questions.

Chairman ROSTENKOWSKI. Thank you, Mr. Healey.

Mr. Healey, I understand that Senator Baker has urged that the debt ceiling not be increased until Congress returns after Labor Day. What will happen if the debt ceiling is not increased prior to September 1?

Mr. Healey, I am concerned naturally, about Social Security checks. Will the Treasury Department delay transferring funds from the general fund to the Social Security trust funds?

Mr. HEALEY. The short answer to that is that there is no financial consequence from not doing the debt ceiling this week.

There is no problem whatsoever until the end of August. On the first working day in September, which is the 3d, there is enough cash to make the transfer from the general fund to the Social Security trust fund. That occurs, but there is not enough debt ceiling under our projections to invest those funds. That failure to invest, or inability to invest under our projections is temporary, it is for approximately a week. There are some variations. It is not always easy to predict that perfectly.

Under our projections, and under the somewhat complicated accounting for the interest earned by the Social Security trust funds, there is no loss of interest to the trust funds by the failure to invest, that is point one. There is adequate cash in the early part of September to make the actual Social Security cash distributions, that is point two.

Chairman ROSTENKOWSKI. Mr. Healey, during our hearings last May, you provided the committee with monthly estimates of debt subject to limit through the end of fiscal year 1985. Are these estimates still valid, and if not can you provide us with new estimates?

Mr. HEALEY. For September 1984 and September 1985, I currently have no better estimates than those estimates which were based on the April update. As I mentioned during my prepared remarks, there will be some slight variation, I suspect, when OMB releases the midsession review. I have not seen those final numbers.

Chairman ROSTENKOWSKI. When will OMB release those revised estimates?

Mr. HEALEY. Within the next couple of days.

Chairman ROSTENKOWSKI. I understand that it will be soon. I wondered whether your May estimates of the debt will be consistent with the administration's midyear review of the budget?

Mr. HEALEY. I do not expect that they are going to be significantly different. I expect any difference to be small, but I literally don't know what the numbers are that OMB is going to release tomorrow.

Chairman ROSTENKOWSKI. Mr. Healey, once OMB releases these figures, would you supply us with your revised figures?

Mr. HEALEY. Yes, we will be pleased to.

[The information follows:]

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1984

[Based on: Budget receipts of $671 billion, budget outlays of $845 billion, unified budget deficit $174 billion, and off-budget outlays of $13 billion]

	Cash balance	Debt	With constant $20 billion balance	With $5 billion contingencies
1983:	Actual	Actual		
October 31	$27.1	$1,385.3		
November 30	5.2	1,389.9		
December 30	11.8	1,411.4		
1984:				
January 31	28.5	1,438.1		
February 29	23.8	1,458.3		
March 30	14.1	1,464.5		
April 30	38.2	1,486.8		
May 31	8.2	1,497.8		
June 29	13.6	1,513.4		
July 31	16.3	1,539.3		
	Estimated	Estimated		
August 31	10.9	1,559.8	1,568.9	1,573.9
September 28	20.0	1,571.8	1,571.8	1,576.8

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1985

[Based on: Budget receipts of $764 billion, budget outlays of $931 billion, unified budget deficit $167 billion, and off-budget outlays of $13 billion]

	Cash balance	Debt	With $5 billion contingencies
1984:	Estimated	Estimated	
October 31	20.0	1,605.6	1,610.6
November 30	20.0	1,638.0	1,643.0
December 31	20.0	1,651.7	1,656.7
1985:			
January 31	20.0	1,661.0	1,666.0
February 28	20.0	1,679.5	1,684.5
March 29	20.0	1,698.5	1,703.5
April 30	20.0	1,709.2	1,714.2
May 31	20.0	1,724.1	1,729.1
June 28	20.0	1,741.2	1,746.2
July 31	20.0	1,756.0	1,761.0
August 30	20.0	1,775.8	1,780.8
September 30	20.0	1,803.2	1,808.2

Mr. CONABLE. Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Conable will inquire.

Mr. CONABLE. Thank you, Mr. Chairman.

Let me ask you this, Mr. Healey. Frequently, we have been aware of Treasury's ability to get along even though they are very close to the time when their cash reserves will run out. It has been alleged that our failure to do anything resulted in running up borrowing costs significantly.

Regardless of whether we can make it as far as the Social Security payment is concerned, is what we are doing in postponing this issue, in any way, fiscally, financially, irresponsible?

Mr. HEALEY. My short answer to that question, sir, no; it is not irresponsible. Let me just comment on it for a minute.

If you will remember, the last time I was before this committee, which I believe was in a markup, I indicated that to change the quarterly auction of the 3-, 10-, and 30-year securities which is the cornerstone of the Treasury financing pattern—changing that, putting uncertainty into that auction does and would cause a cost to the taxpayer through a significant possibility of increases in our financing costs.

What we are talking about in September, the other measures I mentioned in my testimony, are basically changes in weekly bill auctions and use of cash management bills which, although they introduce variability in the auctions, are relatively short-term instruments and do not have the kind of damage that deferring the long-term financing does.

Going back again to your question—would it be irresponsible to cause us to have to make these changes in the weekly bill auctions—the answer is that the effect, if any, would be negligible.

Mr. CONABLE. We all know that September is one of the periods of time during which estimated income tax is paid. Is it anticipated that the estimates of income tax this year, because of the growth in personal income and the relative prosperity of the country, will be larger than usual, and is that likely to carry us over until fairly well into September?

Is this something taken into consideration already and, therefore, the timeframe is now very well and accurately set?

Mr. HEALEY. The answer to your question is that the pattern of the cash flows in September is such that the tight period of the month is in the early part of the month. Once we get through that, starting the 15th of September, there is a very heavy cash inflow because that is a corporate tax payment date. It gets us well into the end of September with adequate cash, and even into early October.

Mr. CONABLE. When is the time you think we will be in trouble? When will we have to act?

Mr. HEALEY. It will be some time in that end of September/early October period after we have spent those corporate tax receipts.

Mr. CONABLE. Assuming that we get it done before we go home, we will still be all right.

Mr. HEALEY. Yes.

Chairman ROSTENKOWSKI. Mr. Gibbons will inquire.

Mr. GIBBONS. Mr. Healey, let me ask you some basic questions. I don't want to appear to be partisan, because I don't think that this should be a partisan matter.

What does the administration want us to do? How much increase in the debt ceiling do you want, and when do you want it?

Mr. HEALEY. Mr. Gibbons, as a debt manager, I would prefer to have the increase——

Mr. GIBBONS. I am not talking about you as a debt manager. I want to know what the President of the United States wants in the way of an increase in the debt ceiling, how much and when.

I don't want your opinion. You understand that this has greater significance than your opinion. I want to know what the President wants for an increase in the debt ceiling, how much and when.

Mr. HEALEY. The answer to that question is twofold. In order to have adequate debt ceiling under our projections, we would need $1,584 billion on September 30, 1984, including the conventional assumptions——

Mr. GIBBONS. Mr. Healey, I read your statement. I understand the mathematics. You don't need to explain that to me.

Just tell me what President Reagan, the President of the United States, wants in the way of an increase in debt ceiling and when does he want it.

I have been here for 15 years, and you are the first person that ever came down here to ask for an increase in the debt ceiling who couldn't tell me that. Tell me what does the President of the United States, Mr. Reagan, want in the way of a debt ceiling increase and how much, and when.

Mr. HEALEY. The answer to the question is that in the narrowest possible——

Mr. GIBBONS. Just give me a figure and a date. You don't need to explain it to me, I can read and add almost as well as you can.

Mr. HEALEY. We will absolutely need an increase in the debt ceiling because we will have run out of both debt——

Mr. GIBBONS. When do you need it? When do you need us to act, what date?

Mr. HEALEY. That will probably be early in October.

Mr. GIBBONS. So we don't need to do anything until early October, is that right?

Mr. HEALEY. Yes.

Mr. GIBBONS. That is the President's position?

Mr. HEALEY. It is not essential that you do anything until early October.

Mr. GIBBONS. Is that the President's position? What is his position?

I am going to pin you down on this so you might as well tell me the answer. Does he have a position on this matter? What is his position in dollars and cents, and when it is?

Mr. HEALEY. I would have to be absolutely candid with you, Mr. Gibbons, and say that I have not discussed it with the President in that detail.

Mr. GIBBONS. Don't you think that it is important to do it——

Mr. HEALEY. My recommendation to him would be that——

Mr. GIBBONS [continuing]. Considering how this issue gets politicized.

I don't politicize it, but my colleagues are going to politicize it on the floor. There are going to be obfuscations all over the place—not

voting for it, bouncing it back and forth, changing it by one penny, and every other kind of crazy thing.

It is a political issue, unfortunately. I am not trying to politicize it. I am trying to take the politics out of it. What does the President of the United States, Ronald Reagan, want in the way of a debt increase, and how much?

When and how much?

Mr. HEALEY. The administration would like an increase before we run out of cash and debt ceiling, which at the last analysis and based on our projections is the end of September or early October. We would like it at least through September of 1985.

Mr. GIBBONS. How much?

Mr. HEALEY. The number through September of 1985 would be to increase the ceiling to $1,829 billion. I did say to the chairman that that figure may be revised slightly based on the midsession review, and we will provide those numbers. If they are out tomorrow, we will provide them on Friday.

Mr. GIBBONS. So he doesn't want us to take any action before what date in October?

Mr. HEALEY. I don't think that I said it quite that way.

Mr. GIBBONS. I am trying to pin you down. Don't wiggle on me so much, it is like trying to put a hook into a worm. I am not calling you a worm, but if you wiggle somebody is going to get hurt.

Just tell me. We are going to get out on the House floor here, and Mr. Rostenkowski and Mr. Conable will be doing all they can, and I will be over there trying to help, too, but there are going to be all kinds of people out there who will say, "blah, blah, blah. Who shot John?"

Now tell me, what does the President want in the way of a debt ceiling, and how and when does he want it?

Mr. HEALEY. I think I have answered that. I don't mean to be sounding like I am wiggling.

Mr. CONABLE. Would the gentleman yield?

Mr. DORGAN. Would the gentleman yield?

Mr. CONABLE. Would the gentleman yield?

Mr. GIBBONS. Let me yield to Mr. Conable, and then to Mr. Dorgan.

Mr. CONABLE. Sir, I think Mr. Gibbons knows that you haven't talked to the President. When the administration requests something, it is requesting it in the name of the President. The President doesn't cudgel his brains much about this kind of detail if he has competent people representing him.

All Mr. Gibbons wants you to say is what the administration wants. He wants to be sure that it is not your personal view, that we have a formal request, and that it be quantified both as to time and amount. I think that is all he is talking about. He is not asking you to discuss your conversation with the President on it.

Mr. GIBBONS. The gentleman is correct.

Now let me yield to Mr. Dorgan.

Mr. DORGAN. If the gentleman would yield.

I just wanted to point out, in line with what the gentleman was asking Mr. Healey, that on June 26, when we had a Ways and Means meeting over in the Capitol, Mr. Healey indicated to us

then that we would run out of money by the end of August. I am a little confused about what is happening here.

You were questioned very closely, Mr. Healey, on June 26, and that is a scant 35 or 40 days ago, and you indicated that we would run out of money at the end of August. Now you are answering Mr. Gibbons with something completely different, and I don't understand that at all.

Mr. HEALEY. Mr. Dorgan, I don't have a transcript of that markup. I am, however, quite clear that our request for the $1,573 billion, which you all provided as a result of that markup, was a projection of the debt ceiling that was required at the end of August, including the assumption of a balance, including the assumption of a contingency amount. It is a standard way of putting those numbers together that has been the practice of making those requests for a number of years.

If I did say that we were going to run out of money at the end of August, it was clearly inadvertent. It was clearly different from the written numbers that we provided to the committee.

Mr. DORGAN. If the gentleman from Florida would yield for just one more second.

The thing that concerns me is that I know that Congressman Jones questioned you very closely at that meeting on June 26. At least I feel a little misled by your answers then, because you indicated clearly at that point that we were going to run out of money at the end of August. Now you are suggesting something completely different. I am a little concerned about the accuracy of your numbers.

Mr. HEALEY. I apologize.

Chairman ROSTENKOWSKI. The committee will stand in recess for 10 minutes.

[Recess.]

Mr. GIBBONS [presiding]. Let's proceed.

Mr. Pickle.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. Healey, you pointed out a few minutes ago that under the 1983 act at the beginning of each month a transfer is made from the general revenue into the Social Security trust funds in an amount equal to the tax revenues that you would get for that month, that is the law that we passed, and then that money is taken and invested.

My question is, What would be the impact on the Social Security System if these transfers were not made to the Social Security trust funds?

Mr. HEALEY. The answer is that under our projections there is no impact on the Social Security System. I can give you a 2-minute description of why that happens, if that would be helpful.

Mr. PICKLE. I don't want any thesis on it, but you say that there is no impact. It doesn't make any difference whether you transfer it or not.

Mr. HEALEY. Let me try to run through it, and if I get too technical, or if I am not clear, stop me.

That law, as I understand it, requires the transfer of the cash that is expected to be received during the month on the first day of the month.

Mr. PICKLE. That is correct.

Mr. HEALEY. Normally that would be invested and then you have transactions as checks are paid during the month, investments or disinvestments, and the cash is paid out.

Mr. PICKLE. Yes.

Mr. HEALEY. At the end of the month there is a calculation made by the fiscal service of how much the Social Security fund would have earned if money had been transferred as received in Social Security payments, rather than through this advance transfer at the beginning of the month.

So what would have been earned is calculated, and that is the earnings that are attributed to the trust funds, and any excess earnings in the funds because of the advance transfer will return to the general fund of the Treasury.

Mr. PICKLE. The law said, in 1983, that you would transfer these funds at the beginning of the month.

Mr. HEALEY. Yes.

Mr. PICKLE. Now you just said that we don't need to do it, and it is not important. The law of the Congress, does it not, says that you are to do this. It doesn't say, do it only if you would like to do it, or if the fund is in good shape or not. It is to be done.

Mr. HEALEY. The distinction I am wanting to draw is between transferring the funds, which by law needs to be done and will be done, and investing the funds. The 1983 law merely mandates the transfer of the funds. It didn't mandate the investment.

Mr. PICKLE. Suppose that the Social Security trust fund was in short shrift, and it was very close whether you had the money to pay the benefits, would you still say that you don't need to transfer?

Mr. HEALEY. Let me repeat again. The transfer under our projections will be made. The transfer from the general funds to the Social Security trust fund will be made on September 3, I think it is, the first working day of the month.

Mr. PICKLE. All right.

Mr. HEALEY. What will not be done, or what cannot be done is the investment of that transfer of funds. The cash is there.

Mr. PICKLE. Is this program any different from any other trust fund that is in existence? Is any trust fund, then, subject to whether you want to proceed with this kind of operation or not?

Mr. HEALEY. I can't give you a totally precise answer. I believe that there are almost 200 different trust funds, so I can't speak for every one. The Social Security trust fund is different, and it is unusual because of this advance payment at the beginning of the month.

Mr. PICKLE. Could you, under this same theory, withhold funds for the highway trust fund?

Mr. HEALEY. Mr. Pickle, we are not withholding any funds. The funds are transferred.

Mr. PICKLE. All right. Is there any element of investment with the highway trust fund involved here?

Mr. HEALEY. I honestly can't give you an answer to the question. I am not familiar with the operation of the highway trust fund.

Mr. PICKLE. To get your position, you are willing on the first of the month to transfer the funds.

Mr. HEALEY. We will.

Mr. PICKLE. But you don't want to make the investment, which is a further expenditure, at that point because, you said, you are inhibited by the possible ceiling limit.

Mr. HEALEY. Absent the debt ceiling room, yes.

It may not be obvious, but the transfer is approximately $15 billion. To invest that, it is invested in Treasury securities and, therefore, you need $15 billion of debt ceiling room to create $15 billion of new Treasury securities to invest it.

Mr. PICKLE. I submit to you that you are not carrying out what is the law, whether it is a matter of investment, or we have to wait until the end of the month to determine how much interest you might or might not have made.

The fact of the matter is that you are supposed to do that, and if you don't do it on the first of the month, including the investment, then you are not carrying out the law.

You just simply said, I am not going to do it because I am inhibited by the debt ceiling limit. That could apply to a lot of programs in the same situation. You are just saying, I take upon myself the right now to carry out what the Congress said a year ago.

Mr. HEALEY. I don't believe that is correct, Mr. Pickle.

I would be the first to say that clearly Treasury would prefer to be able to invest the funds, because we believe that is the right thing to do, to invest those funds.

Mr. PICKLE. What changes in the Treasury's financing plans for September would have to be made if the debt ceiling were not increased by September 1?

Mr. HEALEY. Could you repeat your question, I am sorry?

Mr. PICKLE. Yes. What changes in the Treasury's financing plan for September would have to be made if the debt ceiling were not increased by September 1?

Mr. HEALEY. Basically of two general kinds. One would be the increased use of cash management bills. Cash management bills are bills that are sold with very little notice, and not necessarily a predictable pattern, that are used to cover cash needs for short term periods of time absent the regular auctions. That would be one.

The second would be the weekly bill auctions, which subject to small changes every week for cash management purposes, are fairly predictable. They would show increased variability because they would be subject to enough debt ceiling. On each one, we would calculate how much debt ceiling was available, and lower or raise the weekly auction to fit the available debt ceiling.

Mr. PICKLE. I am not going to take any more time.

It seems to me that the Treasury said, we will take it upon ourselves to make the decision of whether we make the transfer on the first of the month or not. If we want to do it, we will. If we don't, we don't think that it makes any difference. It seems to me that you are belittling the law that we passed last year with respect to these advance transfers.

Mr. HEALEY. I would absolutely like to not leave you with that impression.

Mr. PICKLE. That is what you are doing.

Mr. HEALEY. Point 1 is that the money will be transferred as is mandated by the law. Point 2 is, I would certainly prefer to be able to make those investments.

You have asked a series of questions, and I have given you the best answers as a debt manager that I can. You have asked the question: Is the Social Security trust fund hurt by that? The economic answer is that it is not.

Mr. PICKLE. It is hurt, but you don't know how much. You may lose some interest.

Mr. HEALEY. No. Good, I am glad I stated that. Let me state it again.

There will be no loss of interest under our projections because of the way the accounting works with this adjustment at the end of the month. There is no loss of interest to the Social Security trust funds.

Mr. PICKLE. Then you don't ever have to make these transfers on the first of the month. It doesn't make any difference, then, you think.

Mr. HEALEY. We always make the transfers.

Mr. PICKLE. But you won't make the investment.

Mr. HEALEY. Correct. We would prefer to make the investment, but if we don't make the investment, because we can't, because there is no debt ceiling, then as long as that is corrected soon enough in the month, there is no economic harm to the trust funds, or to the recipients of Social Security.

Mr. PICKLE. Thank you.

Mr. GIBBONS. It is obvious that you are financing the general debt out of the Social Security trust fund; that is what you are doing.

Mr. HEALEY. I think that all of the Social Security trust funds are invested in Treasury securities.

Mr. GIBBONS. Except these right here.

Mr. HEALEY. These are to the extent that there is debt ceiling available.

Mr. GIBBONS. So the Social Security trust fund does lose interest.

Mr. HEALEY. No; that is not correct, it does not necessarily lose interest, and I am sorry if my 2-minute explanation of how that account works——

Mr. GIBBONS. Will it lose interest?

Mr. HEALEY. Pardon?

Mr. GIBBONS. Will it lose interest?

Mr. HEALEY. It can theoretically lose interest depending on the pattern of cash flows and the changes in the debt ceiling during any given month.

Our projections are that during the month of September 1984, that it will not. Basically, that is caused by those large corporate cash flows which allow us to reduce other debt, which will allow us to over time invest.

We are talking only about a very short period of time. I think the projections show 6 to 8 days during which the Social Security trust funds are not fully invested. Even on the first working day of the month, if the first part of it is invested, to the extent that there is debt ceiling.

Mr. GIBBONS. I am going to recognize Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman.

Mr. Healey, just to give you a rest for a minute from your arduous testimony and change the subject for a second, do you know if the Treasury has reached any decision as to what kind of registration would be requested on U.S. bonds sold abroad?

Mr. HEALEY. Yes, sir. The Treasury has not reached a decision.

Mr. STARK. Has the Treasury done any revenue estimates as to the possible revenue loss if we sold U.S. Government bearer bonds abroad?

Mr. HEALEY. I can't give you a specific answer. I think, to the point, both the Office of Tax Policy and the Internal Revenue Service are heavily involved in the policy decision process that Treasury is going through right now.

Mr. STARK. You don't know if they have studied at this point the revenue impact?

Mr. HEALEY. I can't give you an answer to that specific question.

Mr. STARK. What impact do you think these issue of bearer bonds would have on our efforts to negotiate tax information exchange agreements with other countries?

Mr. HEALEY. I am sorry. I am not qualified to answer that.

Mr. STARK. I think, if that has been considered, it would be of interest, and I am going to request that the Chair keep the record open for a while.

It is my understanding that we will probably not markup the debt ceiling bill. I intend, at the time we do, to offer an amendment, which is in order on the debt ceiling, and the amendment will tend to limit the ability to offer bearer bonds abroad.

So I would like to give the Treasury the opportunity to respond, for the record, and I will make a statement in a minute myself for the record.

Mr. HEALEY. I will be pleased to get such a response.

[The information follows:]

[From Treasury News Release, Aug. 16, 1984]

STATEMENT OF DONALD T. REGAN, SECRETARY OF THE TREASURY

As many of you know, the Treasury has been engaged in a broad scale review of our debt financing techniques. It is a regular practice for Treasury to evaluate and reevaluate our borrowing techniques so as to reduce the costs of financing to American taxpayers as well as to participating in developing more efficient financial markets around the world.

Last month Congress removed the 30% withholding tax requirement on interest paid to foreigners holding U.S. securities. This was part of the Deficit Reduction Act that President Reagan signed on July 18. Congress, through this legislation, gives U.S. issuers, including Treasury, authority to issue bearer or registered securities targeted to foreign purchasers in order to expand markets and reduce the cost of borrowing.

While we have this specific authority, we are also very mindful of the need and desirability of maintaining necessary safeguards against tax evasion.

Therefore to accomplish these aims, I have made the following decisions:

(1) *U.S. Treasury securities.*—Treasury will, in conjunction with its regularly scheduled securities auctions in the U.S., provide for additional amounts of certain issues of Treasury notes or bonds which will be targeted to foreign purchasers in a special registered form. They will not be issued in bearer form. In order to gain exemption from the 30% withholding tax, certification must be provided on initial purchase and in connection with each interest payment that beneficial owners of these targeted issues are neither citizens nor residents of the United States. Penalties will be imposed on those who abuse or evade the certification procedure.

The initial auction of such securities could take place as early as late September in conjunction with a regular Treasury auction of four year notes. It is anticipated

that the targeted portion of the issue will have an annual interest payment while the non-targeted portion will have the usual semiannual interest payments.

Tenders will be accepted from overseas institutions, including foreign offices of U.S. institutions, for sale to foreign investors. There will be no provision for a future increase in interest payments to offset changes in U.S. withholding tax requirements, and no provision for early redemption of these securities. Final details of the issue will be announced approximately two weeks before the auction date.

(2) *U.S. Government-Sponsored Enterprises or U.S. Government-Owned Agencies.*—U.S. Government-sponsored enterprises including the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association and the Farm Credit System, will be permitted to issue targeted registered securities, like the Treasury issues, to be sold to foreign purchasers sometime after the first Treasury issue. These enterprises will not be permitted to issue bearer securities. A review of this decision, based on the year's experience, will be made next year, prior to October 15, 1985.

U.S. Government-owned agencies generally borrow from the Treasury or the Federal Financing Bank, and those agencies will not be permitted to borrow abroad.

(3) *Corporate Securities.*—As provided by the Deficit Reduction Act, U.S. corporations will be permitted to issue debt obligations targeted to foreign purchasers in bearer form, provided that the requirements of the law are met to ensure sale only to non-U.S. persons, and provided that such obligations are not guaranteed by the U.S. A U.S. person who subsequently buys such a bearer security will be obliged to convert it into registered form or by subject to penalties imposed by law.

Regulations implementing these decisions will be filed tomorrow.

Again, I want to repeat that I believe that these decisions will broaden and improve the efficiency of world capital markets and contribute to a reduction of the government's borrowing costs while maintaining our safeguards against tax evasion.

OTHER NEW TREASURY FINANCING TECHNIQUES

We are also announcing two further changes.

First, we plan to test the market for a 20-year Treasury bond with 5 years of call protection. Currently the Treasury offers a 20-year bond each quarter with no call features. That is, the investor is assured that the bond will not be redeemed by the Treasury before it matures. By offering 5 years of call protection the Treasury may be required to pay a somewhat higher interest rate. But the higher interest costs over the first 5 years may be offset if, due to continued low inflation and other improvements in economic conditions that we foresee, interest rates have declined within the time Treasury may call such bonds and can refinance at a lower rate.

Investors who want more call protection will continue to be able to invest in the regular quarterly offerings of 30-year Treasury bonds which provide for 25 years of call protection.

Second, we plan to adopt an innovation which will increase the efficiency of the new market for zero-coupon securities. Over the past two years Government securities dealers have created a variety of zero-coupon securities by purchasing conventional Treasury securities, "stripping" the interest payments, and selling them directly or through various forms of trust certificates.

These developments have broadened the market for Treasury securities and reduced Treasury's financing costs. The Treasury plans to make the interest payments on certain of its securities available for separate trading on the book-entry system after the conventional sale. Thus investors will be able to purchase particular Treasury interest payments in the secondary market as zero-coupon securities, in registered form.

Such an innovation will increase trading and liquidity, and reduce the paperwork and insurance costs in the zero-coupon market, as well as further reduce the cost of financing the public debt. We are working on the operational procedures to implement this change and expect to complete our work in the very near future.

I think that these new securities and innovations will help the Treasury considerably in fulfilling its many obligations—among them the financing of our deficit, at the lowest possible cost, and the collection of all legitimate taxes, in the most efficient and productive manner possible.

Mr. STARK. The administration's request to increase the debt limit comes up periodically. While we are considering that, I guess you are aware of the reaction in the press, and I am sure you are aware that many members of this committee have worked for many years at the request of the Treasury and at the request of

the IRS, to try and see that bearer bonds were kind of banished from the landscape.

I am sure you are aware and are not so naive to think that bearer bonds issued abroad would not find their way home, and we might as well take off the currency transfer regulations because bearer bonds are much more convenient to carry, they are insurable, and you would not be breaking the currency laws. We would be opening the floodgates and, indeed, inviting tax avoidance.

I am sure that the Treasury and the IRS, and both sides of the aisle on this committee, agree that we don't want to create opportunities for tax avoidance. So what we are looking for is a way certainly to minimize the cost of the outrageous debt that is burdening this country, but I am not sure that issuing unregistered bonds wouldn't be one step forward and three steps backward.

I don't know as you all know that, but I would like for the Treasury to respond because we won't have another hearing, and depending a lot of the empirical content of your response would help this committee decide whether we ought to do it. I think the instincts of the committee would be to limit severely your ability to offer unregistered bonds abroad.

I am talking now that there is some feeling about for private enterprise and bearer bonds. The Treasury now has that ability to offer bearer bonds abroad, but obviously we never anticipated it. As you were asking not a month ago to limit the ability for these bonds to be sold abroad by industry, we anticipated that you wouldn't yourself be doing it. We should have kept the fox out of the henhouse along with the roosters.

My complete statement will be part of the record. But I would hope that Treasury would respond, for the record, because that will be about the extent of hearings that will be possible prior to our mark up of any debt ceiling change in September.

Perhaps you would like to respond to my rather windy outline.

Mr. HEALEY. Just with two things. I think we are, obviously, sensitive to those considerations, and I personally am obviously sensitive, having testified on the repeal subject, along with Ron Pearlman. The other comment is that I will be pleased to pass your thoughts along to the Secretary whose decision it is to make.

Mr. STARK. In your opinion, could the decision be made in empirical sense? Do you think that you could balance off numerically, with some even close estimations, what we might lose as opposed to what we might save in interest costs?

Mr. HEALEY. I don't think that it is really appropriate for me to give an opinion until the Secretary has made his decision.

Mr. STARK. Thank you.

Do you suppose that you could have a response in the next couple of weeks for us? I am wondering how long we should keep the record open.

Mr. HEALEY. As to your specific question, I think we can have a response for you in the next couple of weeks.

Mr. STARK. I would ask unanimous consent that the Chair keep the record open for that purpose, for a response from the Treasury, anticipating that an amendment would be in order to the debt limit bill.

Mr. GIBBONS. Mr. Stark, I don't see any reason why we couldn't keep it open until we come back because, obviously, nothing is going to happen during that time unless the Speaker calls us back.

Mr. HEALEY. That would be fine.

Mr. STARK. Thank you.

Mr. GIBBONS. Without objection, we will keep the record open until the end of the first day of business after the recess.

Mr. FRENZEL. Would the gentleman yield to me please?

Mr. STARK. I will be glad to yield.

Mr. FRENZEL. I thank the gentleman for yielding.

I simply want to observe that I have already delivered the burden of my judgment in a letter to Secretary Regan about issuing bare bonds of any kind.

I think that Congress has spoken rather strongly on this subject thanks at least to the leadership of the gentleman from California. I think Congress was not kidding when it spoke that way. In my judgment, a Treasury decision which would allow such bonds to be offered would be an enormous mistake, and one that this committee and the Congress itself would not take kindly to.

I think Treasury's previous advice to us that those bonds were difficult to follow and control, and that it made it difficult for us to negotiate treaties with our allies was good advice. I will only join the gentleman from California in suggesting that Treasury would be well advised to follow its own advice.

I thank the gentleman for yielding.

Mr. GIBBONS. Let's see, Mr. Jacobs is the next one on the list.

Mr. JACOBS. Mr. Healey, is the Treasury considering the issuance of zero-coupon bonds?

Mr. HEALEY. Mr. Jacobs, that is one of a number of potentially new debt management techniques that is currently under review.

Mr. JACOBS. The shorter answer would be yes?

Mr. HEALEY. The shorter answer to the question is that it is considering it, yes.

Mr. JACOBS. If such bonds were issued, first of all, do you think that it requires congressional action or at least consultation to actually do such a thing?

Mr. HEALEY. Whether it requires congressional action is a legal question, and I am not sure I know the answer to that yet.

In terms of consultation, I have a style of at least talking to the staff and interested members of the committee who pay attention to the debt management issues.

Mr. JACOBS. If such a practice should come about, what would be subject to the debt limit, the obligation at the end of 10 years, or the initial investment?

Mr. HEALEY. When I said a minute ago that it wasn't absolutely certain whether we would have to come to the Congress for congressional action, I think that this is the basic question of how it would be treated for debt ceiling purposes. If that were unclear, that would be the issue that might require congressional action.

Mr. JACOBS. Just to explore it for a second. If you issue a $1,000 bond for, say, $450, zero coupon, and the payoff in 10 years is $1,000, from your own expertise, how does it strike you? Is it a $1,000 indebtedness or a $450 indebtedness?

Mr. HEALEY. Clearly, it is $450 in an economic sense, and that is the way that generally accepted accounting principles treat zero coupon issuance by private corporations. That is why I was trying to give you a legal question, because quite clearly generally accepted accounting principles don't necessarily govern the debt ceiling.

Mr. JACOBS. So if it were treated as such, it might be a vehicle for minimizing the appearance of the indebtedness, might it not?

Mr. HEALEY. I don't think so. It seems to me that economically, if you get $450 for selling an issue, that should be the initial liability that you would show.

Mr. JACOBS. I have your answer. Now let me ask you this. Would you then disagree with the columnists and the politicians who assert that we have a $10 trillion obligation which the Government is being sneaky about in the case of Social Security? Is it an obligation until the first of the month when the year 2040 comes around?

Mr. HEALEY. The way I believe it should be treated, and let's use your example of the $450, every year we would accrue in the budget the interest.

Mr. JACOBS. I got your answer on that. My question is, Do you find valid the assertion that the Social Security system is *x* trillions of dollars in debt when that debt is not due, and may even not be due for 40 years, part of it, I mean.

You have seen the assertions, I am sure, haven't you?

Mr. HEALEY. At least the one assertion that I am familiar with is that it is a way of hiding the interest on the debt, to keep the interest off the books.

Mr. JACOBS. Will you come with me on the analogy, though, I am trying to hit another bird with this stone. We have already hit that one pretty well.

I am asking whether you agree with the assertion by some people that the Social Security system has an immense unfunded liability because you add up the existing lives to whom Social Security benefits are owed and are likely to be owed over the next trillion years. You get a pretty big figure which shows that the Government is in pretty bad shape. Do you agree with that analysis?

Mr. HEALEY. Let me follow the same process and go back to generally accepted accounting principles. For a corporation, it is an area of some accounting controversy today how those pension liabilities should be shown. I would say that it is not a clear matter in general accounting, whereas the debt question is how you account for the zero-coupon.

Mr. JACOBS. Do you see an analogy between the two?

Mr. HEALEY. I do. As an economic matter, one seems to be clear and one seems cloudy.

Mr. JACOBS. But you do see that there is some similarity, I assume, don't you? Both of them are obligations for the future, and not for today.

Mr. HEALEY. I think that the general question of uncertain future obligations and how to show them, both as an accounting matter and a budget matter, is a very difficult one.

Mr. JACOBS. One last question. Do you, being a member of the administration, have any idea how many more tax debates there will be between now and the election between President Reagan and the Vice President? Which side are you rooting for? Since you

are representing the administration, I am sure that you are for your friends.

Mr. HEALEY. For better or worse, tax is not my responsibility.

Mr. JACOBS. I would say, better, now.

I yield to the gentleman.

Mr. STARK. I know that the economic question is to take the discount sale of the zero coupon. Has the Treasury determined how you would then account each subsequent year? Would you create an interest expense?

Mr. HEALEY. In terms of how it should be done, I think it is quite clear, it is to every year take the appropriate accrued interest expense into the budget. Indeed, there is a general principle used in savings bonds. In savings bonds, the interest is not paid out every year, it is accrued, but it does show as an outlay. To the best of my knowledge, it may be one of the few outlays that are done accrual rather than cash in our budgeting process, but it is the correct way to do it.

Mr. STARK. It would be by another accrual account, then.

Mr. HEALEY. I think that it may be one of the few. I can't think of any other quickly.

Mr. JACOBS. I yield back to the Chair.

Mr. GIBBONS. Mr. Dorgan, and then Ms. Kennelly.

Mr. DORGAN. Thank you, Mr. Chairman.

Mr. Healey, don't think that my question is impertinent, but I am concerned about what is happening to the fiscal policy in the administration, and this is probably a good time to express it. I know that you are carrying the water here on the debt, and that is your job. But I think there are some fundamental questions that all of us who serve in public life have to ask ourselves about what we are doing here.

I particularly am concerned to see your boss go on television, Mr. Regan, and beat Congress over the head, and he does it continually because I turn my television set off when I see him to it, and I have turned it off a good many times, and say that somehow the institution of Congress is responsible for all of these problems. Then you come here and ask us to increase the debt ceiling by about $230 billion.

The President sent a budget to Congress this year asking us to spend $925 billion, and asking for revenue of $745 billion, and the difference between those two figures, he said, go out and borrow some place. For God's sake, we don't want to tax you for it. We don't want you to have to pay for it, American people, we want to borrow it from someone.

Are you an economist?

Mr. HEALEY. No.

Mr. DORGAN. I don't know whether that is an advantage or a disadvantage. What is your background?

Mr. HEALEY. I am an investment banker by trade, and I have an MBA.

Mr. DORGAN. I guess it is safe to ask you, at any rate, even if you are not an economist, aren't you a little concerned about what we are doing here, suggesting year after year, as far as we can see, all economists, Republican or Democrat, say, "With healthy economic

growth, we are not going to grow out of this problem. We are going to have unmanageable deficits."

Aren't you a little concerned, coming down here representing an administration that says, no, we don't want to tax you, we want to borrow it? Wouldn't you sooner ask us to pay for what we are asking to spend? The President wants to spend $925 billion, why don't we pay for it?

Mr. HEALEY. Can I give you a serious answer to that question?

Mr. DORGAN. Sure. It is a serious question, and I am representing some real concerns about what Secretary Regan does when he gets on television and beats Congress over the head for passing the kinds of budgets he suggests we ought to pass, and for increasing the debt limit he wants increased.

Mr. HEALEY. I would like to answer the question in a most straightforward way, and in the area in which I have the competence to answer it, which is dealing with the debt ceiling.

The reality is that the money that is spent has been approved by both Houses of the Congress and by the administration. The fact that the revenues are not greater has been approved by both Houses of Congress and the administration. Therefore, everybody, whether they are happy with it or not, have agreed to the result in the differential, which is the debt.

As my boss, Don Regan, said to me the other day, "I am the guy who is left to clean the stables, all I have to do is to raise the debt which is the gap." But to hold the process of the debt ceiling to, from time to time, disrupt the orderly marketing of that debt through the debt ceiling mechanism, when all the spending has already been approved and has already been spent, seems to me an effort that doesn't really accomplish anything because the expenditures have already been done, and does from time to time create real disruptions in the marketing of the debt that does create real difficulty and real expense.

The answer to your question is that I think the debt ceiling process, particularly if it is as frequent as it has unfortunately been this year, is something that I would prefer we didn't have to do.

Mr. DORGAN. Again, I understand your job. I used to teach some economics and I, for the life of me, can't understand the economic feeling that is going around this town.

I don't intend to vote for this. To suggest that we ought to increase the debt ceiling by about $230 billion, that is simply a bookkeeping response to a fiscal policy that is already in place that we are not going to do anything about. I think that that suggests that the institution is less capable than it needs to be. One of these days, somebody has got to remove themselves from the fog here. Whether it is the President, Congress, or the Secretary of the Treasury, somebody is going to have to do it, and somebody is going to have to start providing some leadership. We just can't go on doing this.

Whether you are an investment banker, an economist, John Q. Citizen, a Congressman, or a President, one day you have got to discover that if you want to spend money, by God you have got to tax somebody for it.

Again, as a politician, I am absolutely furious with the things the Secretary of the Treasury has been saying about deficits, for God's

sake. Proposing fiscal programs that spend $925 billion, and tax $180 billion less, then blame somebody else for the resulting deficit is crazy in my judgment. I just wanted to express that concern, and I hope that you will take it back.

Thank you, Mr. Chairman.

Ms. KENNELLY. Mr. Chairman.

Mr. GIBBONS. Ms. Kennelly.

Ms. KENNELLY. Mr. Healey, I am sorry I was a little late. I remember last year, in 1983, when we were discussing the debt ceiling, we got into debates over the budget and over the deficit, and there was a delay. How serious would it be if we didn't act with haste when we came back after the break?

Will we have more time then?

Mr. HEALEY. I said earlier that we can get well into September before an increase becomes essential. Is that responsive to your question?

Ms. KENNELLY. Yes. Well into September probably means the end of September.

Mr. HEALEY. Yes; and conceivably even the first day or couple of days in October. It is a little bit hard from this vantage point to know that timing with precision.

Ms. KENNELLY. Is it my understanding, Mr. Healey, that you are using the latest midyear estimates when making this estimate?

Mr. HEALEY. No; we are not. They are not published, and I don't know what they are. I said to the chairman that we would submit them for the record. I do believe that there are not dramatic differences or significant differences between the numbers I have used this afternoon and what will be in the midyear estimates.

Ms. KENNELLY. Is there some possibility that the difference could get us into October?

Mr. HEALEY. Yes; although any difference, when you then divide it by a month, just to pick a number, any difference in a yearly estimate has relatively little—if it is a small difference, it has a very small impact on a day, a week or an individual month.

Ms. KENNELLY. Thank you, sir.

Thank you very much.

Mr. GIBBONS. Let's close this hearing up.

In substance, you don't want any increase in the ceiling now; is that correct?

Mr. HEALEY. It is not essential, Mr. Gibbons, and I would like to continue to characterize it that way.

Mr. GIBBONS. Are we going to leave here on Friday, and then you all will come running up here and say, "Hey, Congress left here without doing the appropriate thing"?

Mr. HEALEY. Let me just repeat, because I think it is a worthwhile comment, and I think that it was in answer to a question from Mr. Conable. It is my judgment, and I am happy to speak on behalf of the administration, that it wouldn't be irresponsible not to do a debt ceiling this week. It would not be.

Mr. GIBBONS. When do you think we are going to have to do a debt ceiling?

Mr. HEALEY. By end of the fiscal year, by the end of September, by the end of next month.

Mr. GIBBONS. At that time, you think that the appropriate ceiling is $1,829 billion?

Mr. HEALEY. Give or take a little bit. I believe that the House budget estimate is about $5 billion higher than that number.

Mr. GIBBONS. I think you told me $1,829 billion, and I see that in your statement you say, $1,824.

Mr. HEALEY. I think that there are two numbers in the written statement. One is with and one is without a $5 billion allowance.

Mr. GIBBONS. OK, it is at least $1,800 billion?

Mr. HEALEY. Yes, sir, unfortunately.

Mr. GIBBONS. With that sad news, we will adjourn.

Mr. HEALEY. Thank you.

Mr. GIBBONS. Thank you.

[Whereupon, at 4 p.m., the hearing was adjourned.]

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